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OFFICE OF LOGISTICS

Review of PPA/PRA System
and
Alternative Systems
May 1974

A. GENERAL

1. Over a period of years the efficiency and value of the existing Property Procurement Allotment (PPA) and the Property Requisitioning Authority (PRA) system for the funding and control of Agency personal property have been subject to question by various quarters. While considerable thought has been given to developing alternatives to that system in the past, more recent events have provided impetus to that thinking.

2. The Director, during the course of reviewing the fiscal years 1974 and 1975 programs, raised questions regarding the current PPA/PRA system and directed the Office of Planning, Programming, and Budgeting (now the Office of the Comptroller) to make a "study of these cross-Directorate problems" (Ref: Memo dtd 5 Sep 73 to D/L fm C-PS/DDM&S, Subject: Follow-on Action to FY 1975 Program Review). Additionally, both the Directorate for Operations (DD/O) and the Directorate for Science and Technology (DD/S&T) have recently raised specific substantive questions.

need to know what they are!

3. In the face of continuing reductions in manpower and resources, the Agency must explore ways for meeting its administrative and management responsibilities through more efficient and economical use of manpower, and through the adoption of streamlined procedures. One area which offers the potential for achievement of those goals is the PPA/PRA system.

a. The operating principles of the current PPA/PRA system necessitate considerable duplication of budgetary and financial controls. That duplication of effort impacts on the operating components, the Office of the Comptroller (O/Compt), the Office of Logistics (OL), the Office of Finance (O/FIN), and the Office of Joint Computer Support (OJCS).

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During the course of its review of the efficiencies and values of the current PPA/PRA system, OL has identified three optional procedures for the funding and control of Agency materiel which is procured through OL. For any system as complex and pervasive as is the Agency's materiel system, there is no one option that does not have its advantages and disadvantages. Therefore, selection of one that is best suited to the Agency may involve compromise of requirements which are peculiar to any one part of the total system.

1. Option #1 - Current PPA/PRA System: Retention of the current system represents the alternative of "doing nothing" or status quo. Although the system has been described in considerable detail above, following are some of the advantages and disadvantages which were not specifically spelled out but which should be mentioned:

a. The system has been successful in meeting the requirements of Agency budget policy for centralized procurement of inventory with funds budgeted by the user.

b. Transfer of total funding authority for materiel procurement to OL permits flexibility in adding or dropping items from the inventory based upon current experience and projected needs. It also provides flexibility in timing of inventory procurement. During this period of increasing materiel shortages (e.g., paper products), OL can effect procurement action to compensate for increased leadtime for delivery of items or develop other procurement sources.

c. The system provides highly centralized appropriation controls over procurement which tend to provide for less time-consuming and better coordination of activities among the O/Compt, the office maintaining obligation controls (Budget and Fiscal Branch/OL in this case), the procurement element, and the component of O/FIN concerned with payment of invoices.

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d. Uniformity of procedures for initiating and processing requisitions through the supply system tends to increase efficiency.

e. The external budget presentation of the Agency reflects all materiel (with the recent exception in the cases of OTS and OC) as program "use" requirements.. This has precluded external review or action on the Agency's actual inventory requirements and status.

f. The system necessitates duplicative action in those cases where procurement action, resulting in appropriation obligation, can be identified to the using component. Under the two elements--PPA and PRA--the operating component and OL are both concerned with management of the authorities, maintaining obligation/encumbrance records, reconciling expenditure/issue records, maintaining document files, and taking corrective action when appropriate. OL must "wash" all direct procurement through the inventory records. The O/Compt must support a multiplicity of adjustments to the PPA, and must effect comparability adjustments between the external budget presentation and internal Operating Budget. O/FIN must provide accounting support to the PPA, the PRA and FPA actions. OJCS must provide separate reports against the two authorities.

g. The system, with recent exceptions of OTS and Agent communications equipment, does not permit budget recognition of inventory versus use needs of the Agency.

h. The system is oversimplified in contrast with the unique characteristics of the Agency's materiel requirements. The result has been an inhibition of efforts to streamline procedures or to reduce workload in the several systems contributing to the Agency's materiel program.

2. Option #2 - Modified PPA/PRA System: This system contemplates that program managers continue to budget for total materiel needs. However, transfer of appropriation

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authority to OL as PPA, and issuance of PRA, would be limited to items which would be requisitioned from the inventory. Funds for the acquisition of materiel by OL through direct procurement from commercial or other Government agency sources would be retained by the operating component. Obligations for procurement action resulting from requisitions for direct procurement items would be recorded by the operating component against its funds allotment. O/FIN would record the procurement expenditure against the funds of the operating component. The materiel would not be "washed" through the inventory control or FPA records as a quasi stock accession and issue.

- a. As is true in the current PPA/PRA system, the modified PPA/PRA system would meet the requirements of Agency budget policy for centralized procurement of inventory with funds budgeted by the user.
- b. The system would eliminate the duplicate efforts required to process direct procurement actions through the PPA, PRA, and FPA inventory records.
- c. The system would increase the options available to components supporting the materiel program in amending or adopting better procedures.
- d. The modified PPA/PRA system still would not recognize the inventory needs of the Agency, however, and would, in fact, inhibit supply and inventory management. This is due to the fact that, under the current PPA/PRA system, OL has the option of adding or deleting items from the inventory within the total of funds available for procurement in response to current demands. The modified PPA/PRA system would almost eliminate this capability for responsiveness by OL.
- e. At the present time, the operating components are not required to identify, in either their Operating Budgets or on their requisitions, whether the item is in the Agency's inventory or whether it will result in a direct procurement action by OL. The modified PPA/PRA system would require that each of the operating components distinguish between the amount required for PRA

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to support items issued from the inventory, and the amount to be retained as funds for direct procurement action. In the latter instance, components would also have to have a current catalog of inventory items along with their unit prices.

f. Experience with PPA and with Procurement Plans indicates that operating components do not have their materiel budget requirements in the detail necessary for precise determination of supply action, except on a relatively short-range basis. Experience also reveals that the area of materiel procurement offers a wide latitude for reprogramming of funds by operating components during the course of the fiscal year. These factors, taken in conjunction with the need for identification of inventory versus direct procurement items, would result in estimates of PRA needs, and their conversion to PPA, in amounts highly susceptible to frequent amendment. The inventory management function, however, can only operate efficiently under stable funding conditions.

g. The modified PPA/PRA system would not eliminate duplicative identification of OTS and Agent communications materiel accessions and issues. The OTS and OC budgets provide funds for inventory procurement of these respective cognizant needs, separate allotment controls are maintained, and obligations are identified to these inventories. Requisitions for issues from these inventories, however, are controlled by PRA.

h. In summary, the effect of the modified PPA/PRA system would be to merely reduce the scope of PPA/PRA to inventory requirements. Therefore, many of the advantages and disadvantages of the current system, not enumerated above, would be inherent in this option.

3. Option #3 - Direct Funding: An alternative system

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called Direct Funding distinguishes between the two basic types of Agency materiel requirements--those requirements for immediate consumption (direct procurement) and those for inventory requirements (stock procurement). Under this concept, budget and allotment responsibility would be assigned to each operating component for those of its materiel needs which would be met by direct procurement. Budget and allotment responsibility for inventory (stock procurement), on the other hand, would be assigned to designated officers according to technical interests or control criteria. This would have the effect of extending, to all Agency stocks, the inventory budgeting concept under which OTS and Agent communications cognizant stocks are currently funded.

a. Direct Funding would recognize inventory requirements as a legitimate item in the Agency's budget.

b. The system would delineate budgetary responsibility and authority for inventory control and management. The present system creates a dichotomy. The Director of Logistics now has the responsibility for budget management of inventory procurement but within the bounds of funds budgeted by program managers for inventory consumption.

c. It should enable better utilization of funds. Fragmentation of appropriation authorities tends to result in a higher percentage of unobligated Agency funds at the end of the fiscal year.

d. Direct Funding would utilize the Agency's standard budgetary and accounting procedures and reports for the funding control of property.

e. Requirements for separate PPA and PRA controls, records, and reports would no longer be required.

f. The system offers the potential for higher turnover and utilization of materiel in use.

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Presently offices are reluctant to return an item to stock since they must cite PRA a second time (with some exceptions), if they have need for the item at a later date.

g. Inventory budgets would provide information to the Director of Logistics, during planning stages, regarding the extent to which he will be required to support inventory holdings.

h. Inhibitions currently placed by the requirements of the PPA/PRA system on the procedures of the various systems supporting the Agency's materiel program would be removed.

i. Manpower now devoted to "washing" direct procurement through the FPA system would no longer be required.

j. The FPA system would continue to provide program and inventory managers with information regarding the cost of materiel issued to using components from the inventory.

k. To the extent that the current PPA/PRA system enables use of indirect costs for common-use stock items (which at present amount to less than 10 percent of the value of procurement funded through OL), the program budgets of the Agency would be understated.

l. Direct Funding would require a higher degree of planning, coordination, and control over the Agency's materiel procurement programs.

m. Inventory budgeting under the Direct Funding option would inhibit flexibility in adding to or deleting items from the inventory, and in the timing of procurement for inventory enjoyed under the current PPA/PRA system.

n. Principles to be established for inventory budgeting of common stock items must recognize and provide for the fact that such items are for common use throughout the Agency and no one central point

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can control the timing, items, quantities of individual requirements, or issues from such stocks. Budget procedures established for assignment of responsibility to designated offices for inventory requirements must also provide a control mechanism to assure that using components do not indiscriminately and irresponsibly draw down from the inventory.

o. As in the case of the modified PPA/PRA option, the Direct Funding system would require identification and distinction between those requirements to be satisfied through direct procurement and those from inventory by all components involved in the Agency's materiel program. Sacrifice of the uniformity of treatment, which is an advantage of the current PPA/PRA system, would entail risks of duplicate budgeting for items, uncertainties in the requisitioning process, greater possibility of errors, and creation of other problems related to management and operation of a materiel system under split funding authority and responsibility.